

May 31, 2000

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The Honorable Slade Gorton
United States Senate
Washington, D.C. 20510

Attention: Tara Ord

Dear Senator Gorton:

This letter is in response to your inquiry of May 3, 2000, on behalf of your constituent, Mr. [REDACTED]. He is self-employed and receives reimbursement for business mileage when he uses his personal automobile. He is reimbursed at the standard business mileage rate set by the Internal Revenue Service (IRS). Mr. [REDACTED] recently received information the IRS is reducing the rate from 32.5 cents per mile to 31 cents. Mr. [REDACTED] is concerned that the cost of gasoline is at its highest in a decade. Mr. [REDACTED] also believes the IRS sets the rate without considering the real costs of doing business.

The information Mr. [REDACTED] received is not correct. The IRS has not lowered the business standard mileage rate this year, and there are no plans to lower it for calendar year 2000. The IRS raised the business standard mileage rate for 2000 from 31 to 32.5 cents per mile in Rev. Proc. 99-38, 1999-43 I.R.B. 525, and will not adjust the rate again until the end of 2000. I hope the following will explain how the IRS sets the business standard mileage rate.

The business standard mileage rate is based on an annual study of the fixed and variable costs of operating an automobile. The study, performed by an independent contractor that is an expert in the cost analysis of business use of automobiles, uses recent data from each state in the country indicating the various component costs of driving the most popular automobiles of various sizes. The study then combines this data to achieve a national composite cent-per-mile rate. The IRS announces the mileage rate in advance of the applicable year so that, throughout the year, taxpayers will know the extent to which automobile expenses may be treated as substantiated. The rate for 2000 was determined in the same manner as in the past.

We have seen gasoline and oil prices fluctuate dramatically over the last several years, but it is not administratively feasible for the IRS to account for these fluctuations more frequently than annually. However, the standard mileage rate is an optional method for

calculating automobile expenses, and taxpayers generally may instead claim a deduction for their actual automobile expenses if properly substantiated.

I hope this information is helpful. Please call me at (202) 622-4810, or call John T. Sapienza, Jr., at (202) 622-4920 if you have any questions.

Sincerely,

Lewis J. Fernandez
Deputy Assistant Chief Counsel
(Income Tax & Accounting)